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SUBJECT: RUSSIA'S LATEST STATE CORPORATION: HOUSING
MAINTENANCE FUND

REF: MOSCOW 00510

¶1. (SBU) Summary. In an effort to revitalize Russia's housing, President Putin on July 27 signed the law creating the Fund to Assist Housing Maintenance. Minister of Regional Development Kozak will head the Fund's supervisory board and his protg, Konstantin Tsitsin, a Federal Council member, will head the Fund. With a budget of 240 billion rubles (USD \$9.6 billion), the Fund will finance projects to upgrade dilapidated housing and resettle people from uninhabitable homes to better ones. The GOR hopes the Fund will also encourage development of a market for repair companies and jump start the formation of homeowners associations. While most experts consider the Fund well-targeted, they express concern over its small size, the potential for corruption, and its ability to attract investors into the home repair market. End summary.

Crumbling Housing Stock

¶2. (SBU) Russia's dilapidated housing stock has been ignored since privatization in the 90s, as the GOR passed responsibility for maintenance and repair onto first-time homeowners who were unaccustomed to such responsibility and lacked sufficient financing to carry the new burden. Most urban Russians live in apartment buildings where they own the individual apartments. The rise of a do-it-yourself culture has led to improvements in individual dwellings, but weak homeowners associations have left maintenance of the building infrastructure, including elevators, communal spaces, and utility systems in disarray.

The Fund Takes Shape

¶3. (SBU) The Fund is the latest in a series of state corporations that the GOR has created to address the country's economic problems. Money has been allocated in the 2008 federal budget and beginning January 1, regional and municipal governments can receive 500 million to eight billion rubles (USD \$20-320 million) in assistance. Sixty percent will finance the repair of existing housing and 40 percent will finance resettlement into better homes. Kozak will head the Fund's supervisory board, which will consist of 17 members representing the Presidential Administration, State Duma, Federation Council, and Public Chamber.

Konstantin Tsitsin, a Federal Council Member, will direct the Fund. According to Tsitsin, board members will not receive salaries and staff employees (100 have been named so far) will receive wages somewhere between public and private sector averages -- meaning a pay hike for government workers moving to the Fund. While Tsitsin is reported to be Kozak's protg, some experts have expressed concern over his lack of experience in the sector.

14. (SBU) According to Tsitsin, the regional and municipal governments must agree to 12 criteria -- three of which have generated the most attention and criticism. First, the regional government must ensure that 25 percent of the service companies doing home repair in its region are privatized by January 1, 2009, and 80 percent by 2011. Second, the regional government must guarantee that five percent of apartment buildings in their region will form homeowners associations or cooperatives by January 1, 2009, rising to 10 percent in 2010 and 20 percent in 2011. Such associations would be responsible for choosing and overseeing companies repairing their building. Finally, the regional government, together with the Fund, would finance 95 percent of the total cost of repair, but homeowners must finance the remaining five percent. According to Tsitsin, 70 regions are ready to file the necessary applications to receive funding.

Resistance in the Regions

15. (SBU) Regional and municipal authorities have objected to these last two criteria. They claim homeowners associations are developing, but slowly. Citizens are reluctant to take

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control of their own buildings for fear of being saddled with huge costs and instead are waiting for local governments to finance repairs. In addition, they argued that homeowners would balk at paying even five percent of the total repair cost. According to recent press reports, authorities in 67 cities have lobbied Duma and GOR officials to relax the requirements. Duma deputies from the "A Just Russia" party have taken up their cause and submitted amendments to the law for the Duma's consideration in spring 2008. However, Tsitsin and Kozak have strongly opposed changes to the Fund's

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criteria.

Fund's Idle Capital to be Invested

16. (SBU) The Fund's budget will not be entirely spent in its first year and up to 80 billion rubles (USD \$3.2 billion) will be invested in federal, regional and OECD-country government obligations. Further diversification will be considered later and could include investment in Russian and OECD-country stocks and mortgage obligations. While the GOR wants to keep the money safe in low-yield investments, some experts believe that the only way to expand the Fund's capital -- or to simply keep up with inflation -- is to invest it in stocks, instead of low-yield securities.

Good Idea, But Rising Concerns

17. (SBU) While most experts and officials support the idea of the Fund, there are concerns about opportunities for corruption in the distribution of the money and the small size of the Fund in comparison to the scope of the problem. Sergey Sivaev, Director of Municipal Economy at the Institute of Urban Economics, said that the Fund is too small to address the vast amount of repairs needed and would only provide 10 percent of what is necessary. He added that

attracting private capital would be key to any program seeking to improve the situation. He also suggested changing current banking policies to allow homeowners to use apartments as collateral when applying for bank loans could spur more home improvement projects.

18. (SBU) Andrey Shirokov, Head of Real Estate and Urban Infrastructure Management at the Moscow Institute of State and Corporate Governance, reiterated that the Fund is just too small. He said that up to two-thirds of Russia's housing, or 3.8 billion square meters, is in need of repair and requires 5-10 trillion rubles (USD \$200-400 billion) to fix -- 20-40 times greater than Fund's budget. Remir Mukumov, Head of Territorial Development at the MEDT and one of law's authors, argued that the Fund must start somewhere.

19. (SBU) Comment. The Housing Maintenance Fund has the potential to jump-start the stalled National Priority Project in Affordable Housing, which has led to little improvement in the housing situation (reftel). The Fund tackles a fundamental problem that the National Project, with its focus on construction and mortgages, has not addressed. Targeting capital repairs fills this void and while initial monies may be low, positive results could spur additional funding. However, like other GOR projects, it is a waiting game to see if the Fund will reach those Russians in most need or if it will be hindered by corruption, inadequate funding and an inability to attract private investment. End comment.
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